

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of the Village of Douglas	County Allegan
Fiscal Year End 06/30/07	Opinion Date 10/23/07	Date Audit Report Submitted to State 12/12/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

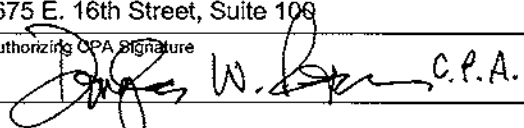
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SAS 112 Communication of significant deficiencies and material weaknesses	
Certified Public Accountant (Firm Name) Ferris, Busscher & Zwiers, P.C.		Telephone Number (616)392-8534	
Street Address 675 E. 16th Street, Suite 100		City Holland	State MI
Authorizing CPA Signature 		Printed Name Douglas W. Rotman, C.P.A.	Zip 49423
		License Number 1101019033	

CITY OF THE VILLAGE OF DOUGLAS

FINANCIAL STATEMENTS

JUNE 30, 2007

Table of Contents

	Page
Independent Auditors' Report	
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to	
Net Assets of Governmental Activities on the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of	
Governmental Funds to the Statement of Activities	6
Statement of Net Assets – Proprietary Fund	7
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund	8
Statement of Cash Flows – Proprietary Fund	9
Notes to Financial Statements	10-19
Required Supplementary Information:	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual –	
General Fund	20-21
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual –	
General Highway Fund	22
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual –	
Water and Sewer Revolving Fund	23
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual –	
Local Streets Fund	24
Schedule of Funding Progress – Employee Retirement System	25
Additional Information:	
Non-major Governmental Funds:	
Combining Balance Sheet	26
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	27

Independent Auditors' Report

October 23, 2007

City Council
Douglas, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of the Village of Douglas, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the management of the City of the Village of Douglas, Michigan. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of the Village of Douglas, Michigan as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, on pages 20 through 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. Management has elected to omit the management's discussion and analysis from the required supplementary information. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of the Village of Douglas, Michigan's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining

non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ferris, Busscher & Zwiars, P.C.

FERRIS, BUSSCHER & ZWIERS, P.C.
Certified Public Accountants
Holland, Michigan

Basic Financial Statements

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF NET ASSETS
JUNE 30, 2007

**Primary
Government**

**Governmental
Activities**

Assets

Cash and cash equivalents	\$ 1,226,875
Investments	550,000
Receivables, net	457,360
Prepays and other assets	893
Capital assets:	
Land	93,800
Construction in progress	16,880
Other capital assets, net of depreciation	<u>2,967,826</u>
Total assets	5,313,634

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	211,243
Long-term liabilities:	
Due within one year	39,794
Due in more than one year	<u>522,207</u>
Total liabilities	773,244

Net assets:

Invested in capital assets, net of related debt	2,531,774
Restricted:	
Major Streets	7,762
General Highway	524,602
Unrestricted	<u>1,476,252</u>
Total net assets	<u>\$ 4,540,390</u>

See notes to financial statements

**CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Functions and Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental activities:			
Legislative	\$ 24,081	\$ -	\$ -
General government	640,107	12,650	2,350
Public safety	982,598	450,481	6,528
Public works	521,540	117,547	127,424
Recreation and cultural	123,347	17,814	11,788
Interest on long-term debt	23,066	-	-
Total governmental activities	<u>\$ 2,314,739</u>	<u>\$ 598,492</u>	<u>\$ 148,090</u>

General Revenues

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for roads

State shared revenues

Unrestricted investment income

Miscellaneous

Special items:

Gain on sale

Settlement income

Total general revenues

Change in net assets

Net assets - July 1

Net assets - June 30

See notes to financial statements

<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue Governmental Activities</u>
\$ -	\$ (24,081)
-	(625,107)
-	(525,589)
1,125	(275,444)
43,800	(49,945)
-	(23,066)
<u>\$ 44,925</u>	<u>(1,523,232)</u>

1,316,803
333,844
102,864
112,523
86,588
475
<u>150,000</u>
<u>2,103,097</u>
579,865
<u>3,960,525</u>
<u>\$ 4,540,390</u>

**CITY OF THE VILLAGE OF DOUGLAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	General	General Highway	Water and Sewer Revolving
Assets			
Cash and cash equivalents	\$ 414,543	\$ 492,232	\$ 58,931
Investments	450,000	100,000	-
Receivables, net	26,279	2,050	33,222
Receivables from other governments	217,619	-	148,176
Due from other funds	-	-	-
Prepaid expenditures	<u>893</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 1,109,334</u>	<u>\$ 594,282</u>	<u>\$ 240,329</u>
Liabilities and Fund Balances			
Liabilities:			
Bank overdraft	\$ -	\$ -	\$ -
Accounts payable and accrued expenses	128,419	-	912
Due to other funds	-	-	64,138
Deferred revenue	<u>150,000</u>	<u>-</u>	<u>33,222</u>
Total liabilities	278,419	-	98,272
Fund balances:			
Reserved	3,500	-	-
Unreserved reported in:			
General Fund	827,415	-	-
Special Revenue Funds	-	594,282	142,057
Capital Project Fund	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>830,915</u>	<u>594,282</u>	<u>142,057</u>
Total liabilities and fund balances	<u>\$ 1,109,334</u>	<u>\$ 594,282</u>	<u>\$ 240,329</u>

See notes to financial statements

Local Streets	Non-Major Funds	Total Governmental Funds
\$ 1,917	\$ 131,239	\$ 1,098,862
-	-	550,000
-	9,275	70,826
6,078	14,137	386,010
-	64,138	64,138
-	-	893
<u>\$ 7,995</u>	<u>\$ 218,789</u>	<u>\$ 2,170,729</u>

\$ -	\$ -	\$ -
2,667	7,896	139,894
-	-	64,138
-	9,275	192,497
<u>2,667</u>	<u>17,171</u>	<u>396,529</u>

-	-	3,500
-	-	827,415
5,328	86,579	828,246
-	115,039	115,039
<u>5,328</u>	<u>201,618</u>	<u>1,774,200</u>
<u>\$ 7,995</u>	<u>\$ 218,789</u>	<u>\$ 2,170,729</u>

CITY OF THE VILLAGE OF DOUGLAS
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Fund balances - Total governmental funds	\$ 1,774,200
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - Capital assets	3,830,186
Deduct - Accumulated depreciation	(782,108)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - Installment notes payable	(542,165)
Deduct - Compensated absences	(69,784)
Deduct - Long-term legal accounts payable	(19,835)
Deduct - Accrued interest on long-term debt	(1,565)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add - Net assets from governmental activities in the internal service fund	158,441
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Tax, special assessment, or other revenues unearned or unavailable in < 60 days for expenditures reported in fund statements.

Add - Receivables	524
Add - Deferred revenue	<u>192,496</u>

Net assets of governmental activities	<u>\$ 4,540,390</u>
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See notes to financial statements

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	General Highway	Water and Sewer Revolving
Revenues			
Tax revenue	\$ 1,310,489	\$ 333,844	\$ -
Licenses and permits	71,699	-	-
State shared revenues	108,517	-	-
Contributions from local units	439,512	-	-
Grant revenue	8,449	-	-
Charges for services	78,944	-	75,062
Fines	8,982	-	-
Interest	64,221	25,660	12,547
Other revenue	3,144	-	534
Total revenues	2,093,957	359,504	88,143
Expenditures			
Current operating:			
Legislative	24,081	-	-
General government	576,283	-	-
Public safety	974,455	-	-
Public works	173,479	459	2,917
Recreation and cultural	115,218	-	-
Debt service:			
Principal	53,791	-	-
Interest and other charges	23,651	-	-
Capital outlay	58,904	40,101	-
Total expenditures	1,999,862	40,560	2,917
Excess (deficiency) of revenues over (under) expenditures	94,095	318,944	85,226
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	-	(245,000)	-
Total other financing sources (uses)	-	(245,000)	-
Net change in fund balances	94,095	73,944	85,226
Fund balances - July 1	736,820	520,338	56,831
Fund balances - June 30	\$ 830,915	\$ 594,282	\$ 142,057

See notes to financial statements

Local Streets	Non-Major Funds	Total Governmental Funds
\$ -	\$ 6,314	\$ 1,650,647
-	-	71,699
40,783	86,641	235,941
-	-	439,512
-	201,375	209,824
-	17,815	171,821
-	-	8,982
583	6,772	109,783
-	12,193	15,871
<u>41,366</u>	<u>331,110</u>	<u>2,914,080</u>
-	-	24,081
-	-	576,283
-	-	974,455
188,531	151,342	516,728
-	15,391	130,609
-	-	53,791
-	-	23,651
<u>124,655</u>	<u>20,411</u>	<u>244,071</u>
<u>313,186</u>	<u>187,144</u>	<u>2,543,669</u>
(271,820)	143,966	370,411
245,000	-	245,000
-	-	(245,000)
<u>245,000</u>	<u>-</u>	<u>-</u>
(26,820)	143,966	370,411
<u>32,148</u>	<u>57,652</u>	<u>1,403,789</u>
<u>\$ 5,328</u>	<u>\$ 201,618</u>	<u>\$ 1,774,200</u>

**CITY OF THE VILLAGE OF DOUGLAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Net change in fund balances - Total governmental funds	\$ 370,411
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - Capital outlay	244,071
Deduct - Depreciation expense	(182,024)

Debt proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.

Add - Principal payments on long-term liabilities	53,791
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An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported within governmental activities.

Add - Gain from governmental activities in the internal service fund	132,160
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Tax, special assessment, or other revenues unearned or unavailable in < 60 days for expenditures reported in fund statements.	(24,801)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - Change in accrued interest on long-term debt	585
Add - Change in accrued compensated absences	5,507
Deduct - Change in accrued legal fees	<u>(19,835)</u>

Change in net assets of governmental activities	<u>\$ 579,865</u>
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See notes to financial statements

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

Internal
Service
Fund

Assets

Current assets:

Cash and cash equivalents	\$	128,013
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Non-current assets:

Capital assets, net		30,428
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Total assets	\$	158,441
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Net assets

Unrestricted	\$	158,441
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See notes to financial statements

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	Internal Service Fund
Operating Revenues	
Charges for services	\$ 140,145
Operating Expenses	
Operating supplies	920
Depreciation	<u>9,988</u>
Total operating expenses	<u>10,908</u>
Operating income	129,237
Non-operating Revenues	
Interest income	2,738
Gain on sale of assets	<u>185</u>
Total non-operating revenues	<u>2,923</u>
Change in net assets	132,160
Net assets - July 1	<u>26,281</u>
Net assets - June 30	<u>\$ 158,441</u>

See notes to financial statements

**CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007**

**Internal
Service
Fund**

Cash Flows From Operating Activities

Internal activity:

Receipts from other funds	\$ 140,145
Payments for operating supplies	<u>(920)</u>
Total cash provided by operating activities	<u>139,225</u>

Cash Flows From Investing Activities

Interest and dividends	2,738
Gain on sale of capital assets	185
Purchase of capital assets	<u>(40,416)</u>
Net cash used by investing activities	<u>(37,493)</u>

Net increase in cash and cash equivalents	101,732
Cash and cash equivalents - July 1	<u>26,281</u>
Cash and cash equivalents - June 30	<u>\$ 128,013</u>

Reconciliation Of Operating Income To Net Cash Provided By Operating Activities

Operating income	\$ 129,237
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	<u>9,988</u>
Net cash provided by operating activities	<u>\$ 139,225</u>

See notes to financial statements

CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. Summary of Significant Accounting Policies

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City.

Reporting Entity

In December 2004, the Village split from Saugatuck Township and adopted a City Charter. The City is governed by an elected council. The accompanying financial statements present the City's activities for which the City is considered to be financially accountable. There are no entities which have significant operation or financial relationships with the City which should be included as component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. Summary of Significant Accounting Policies (Continued)

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, state shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The City's property tax is levied on each July 1st on the taxable valuation of property (as defined by state statutes) located in the City of the Village of Douglas as of the preceding December 31st.

The City's 2006 ad valorem tax is levied and collectible on July 1, 2006, and it is the City's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations.

The 2006 taxable valuation of the City totaled \$117,125,553, on which ad valorem taxes levied consisted of 11.2004 mills for the City's operating purposes and 1.8814 mills for roads raising \$1,311,853 for operating and \$220,360 for roads. The 2006 taxable valuation of the City's Industrial Facilities Tax roll totaled \$840,700 on which taxes levied consisted of 5.6002 mills for general operating purposes and .9407 mills for roads. These taxes raised \$4,708 for operating and \$791 for roads. These amounts are recognized in the respective General and Special Revenue Fund financial statements as tax revenue.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The General Highway Fund accounts for the road tax resources and all non-state funded road construction projects.

The Water and Sewer Revolving Fund accounts for water and sewer connection fees for water and sewer improvements paid for by the City.

The Local Streets Fund accounts for resources specifically accumulated for the local streets capital improvements.

Additionally, the City reports the following fund types:

Special Revenue Funds account for resources specifically accumulated for roads, launch ramps, and various cultural activities.

Capital Project Fund accounts for the financial resources used for the Center/Water Street intersection construction.

Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and conditions, including special assessments.

CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. Summary of Significant Accounting Policies (Continued)

Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services to other funds for equipment usage. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Prepaid Items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Building improvements	10 to 15 years
Land improvements	10 years
Water and sewer lines	40 years
Roads	20 years
Other infrastructure	10 to 40 years
Vehicles	3 to 10 years
Machinery and equipment	3 to 10 years

Compensated Absences (Vacation and Sick Leave) – It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide statement at year-end.

Deferred Revenue – Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. Summary of Significant Accounting Policies (Continued)

Long-Term Obligations – In the government-wide financial statements and in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Restricted Net Assets – The City's policy is to first apply restricted resources when an expense is incurred for which restricted and unrestricted net assets are available.

2. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end. The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the City is the department level.

Excess of Expenditures over Appropriations in Budgeted Funds

During the year, the City of the Village of Douglas incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

Budget Item	Budget Appropriation	Actual Expenditure	Variance (Unfavorable)
General Fund:			
General government			
Assessor	\$ 55,700	\$ 55,718	\$ (18)
Public safety			
Planning and zoning	163,500	189,990	(26,490)
Special Revenue Funds:			
General highway			
Capital outlay	19,500	40,101	(20,601)

**CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

3. Deposits and Investments

Michigan Compiled Laws, Sections 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City of the Village of Douglas Council has designated two banks for the deposit of City funds. The Council has adopted a deposit and investment policy in accordance with Public Act 196 of 1997.

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

Governmental Activities	
Cash and cash equivalents	\$1,226,875
Investments	<u>550,000</u>
Total	<u>\$1,776,875</u>

The breakdown between deposits and investments is as follows:

Governmental Activities	
Bank deposits (checking and savings accounts, certificates of deposit)	<u>\$1,776,875</u>

The bank balance of the primary government's deposits is \$1,789,666 of which \$300,000 is covered by federal depository insurance and \$1,489,666 is uninsured and uncollateralized.

4. Receivables

Receivables as of year-end for the City's individual major and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	General Highway	Water and Sewer Revolving	Local Streets	Non-Major and Other Funds	Total
Taxes	\$ 3,890	\$ 599	\$ -	\$ -	\$ -	\$ 4,489
Connection receivables	-	-	26,755	-	-	26,755
Special assessments	-	-	6,467	-	9,275	15,742
Intergovernmental	217,619	-	148,176	6,078	14,137	386,010
Interfund	-	-	-	-	64,138	64,138
Other	22,389	1,451	-	-	-	23,840
Less allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net receivables	<u>\$ 243,898</u>	<u>\$ 2,050</u>	<u>\$ 181,398</u>	<u>\$ 6,078</u>	<u>\$ 87,550</u>	<u>\$ 520,974</u>

CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

4. Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Settlement income	\$ 150,000	\$ -
Connection fees	26,755	-
Special assessments	<u>15,742</u>	<u>-</u>
Total	<u>\$ 192,497</u>	<u>\$ -</u>

5. Capital Assets

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 50,000	\$ 43,800	\$ -	\$ 93,800
Construction in progress	<u>-</u>	<u>16,880</u>	<u>-</u>	<u>16,880</u>
Subtotal	<u>50,000</u>	<u>60,680</u>	<u>-</u>	<u>110,680</u>
Capital assets being depreciated:				
Buildings	785,299	-	-	785,299
Improvements other than buildings	498,516	40,101	-	538,617
Machinery and equipment	392,382	99,320	(80,927)	410,775
Infrastructure	<u>1,897,045</u>	<u>128,186</u>	<u>-</u>	<u>2,025,231</u>
Subtotal	<u>3,573,242</u>	<u>267,607</u>	<u>(80,927)</u>	<u>3,759,922</u>
Less accumulated depreciation for:				
Buildings	203,098	39,240	-	242,338
Improvements other than buildings	67,017	27,731	-	94,748
Machinery and equipment	359,637	35,892	(80,927)	314,602
Infrastructure	<u>51,259</u>	<u>89,149</u>	<u>-</u>	<u>140,408</u>
Subtotal	<u>681,011</u>	<u>192,012</u>	<u>(80,927)</u>	<u>792,096</u>
Net capital assets being depreciated	<u>2,892,231</u>	<u>75,595</u>	<u>-</u>	<u>2,967,826</u>
Total capital assets – net of depreciation	<u>\$2,942,231</u>	<u>\$ 136,275</u>	<u>\$ -</u>	<u>\$3,078,506</u>

**CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

5. Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 36,983
Public works:	
General	111,344
Internal Service Fund	9,988
Recreation and cultural	10,866
Public safety	<u>22,831</u>
Total governmental activities	<u>\$ 192,012</u>

Construction Activities

At year-end the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Center Street/Water Street intersection	<u>\$ 16,880</u>	<u>\$ 132,805</u>

6. Interfund Receivables, Payables and Transfers

The composition of interfund balances is as follows:

Receivable fund	Payable fund	Amount
Center Street	Water and Sewer Revolving	<u>\$ 64,138</u>

Interfund transfers	Operating Transfer In	Operating Transfer Out
Major funds:		
Local streets	\$ 245,000	\$ -
General highway	<u>-</u>	<u>(245,000)</u>
	<u>\$ 245,000</u>	<u>\$(245,000)</u>

CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

7. Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax, sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

	Interest Rate	Principal Matures	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Installment purchase agreements:							
Chemical Bank	3.50%	7/4/17	\$ 392,863	\$ -	\$ (29,297)	\$ 363,566	\$ 30,493
Chemical Bank	5.14%	3/1/21	187,430	-	(8,830)	178,600	9,301
Ford Motor Company	5.00%	9/30/06	15,663	-	(15,663)	-	-
Accrued legal fees	-%	7/15/08	-	19,835	-	19,835	-
Total governmental activities			<u>\$ 595,956</u>	<u>\$ 19,835</u>	<u>\$ (53,790)</u>	<u>\$ 562,001</u>	<u>\$ 39,794</u>

Annual debt service requirements to maturity for the above obligations are as follows as of June 30:

	Government Activities	
	Principal	Interest
2008	\$ 39,794	\$ 21,202
2009	61,203	19,628
2010	43,007	17,989
2011	44,712	16,284
2012	46,488	14,508
2013-2017	266,630	41,911
2018-2021	<u>60,167</u>	<u>5,279</u>
Total	<u>\$ 562,001</u>	<u>\$ 136,801</u>

8. Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance to cover all risks of losses. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

9. Contingencies

The City received a \$620,000 grant in the prior fiscal year for improvements to Center Street. As part of the grant agreement, the City needed to create 31 new jobs by June 30, 2007. The City received an extension on the job creation criteria until June 30, 2008. The City believes that substantial completion of the job creation requirement will be met by June 30, 2008 and repayment of the grant for non-compliance is unlikely.

10. Employee Retirement and Benefit Systems

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. The MERS Retirement Board, establishes and amends the benefits provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement Systems of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate; the rate as of June 30, 2007 is approximately 8.37 – 14.14% of annual covered payroll. Employees are currently not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended June 30, 2007, the City's annual pension cost of \$109,044 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions includes (a) a rate of return on the investment of present and future assets of 8%, (b) projected salary increases of 4.5% per year compounded annually, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis over 30 years.

**CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

10. Employee Retirement and Benefit Systems (Continued)

Three year trend information as of December 31 (actuarial date) is as follows:

	2006	2005	2004
Annual pension cost	\$ 113,586	\$ 73,298	\$ 56,196
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

11. Deferred Compensation Plan

The City Council offers all City employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans are held in trust by a custodian, as described in IRC Section 457 (g), for the exclusive benefit of the participants and their beneficiaries, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian for the investment of the assets held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in City's financial statements.

12. Building Department

Revenues:	
Inspections fees	\$ 44,135
Expenditures:	
Contract labor	<u>(40,921)</u>
Excess of revenues over expenditures	3,214
Cumulative excess of revenues over expenditures June 30, 2006	<u>55,055</u>
Cumulative excess of revenues over expenditures June 30, 2007	<u>\$ 58,269</u>

Required Supplementary Information

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND
YEAR ENDED JUNE 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Tax revenue	\$ 1,314,925	\$ 1,314,925	\$ 1,310,489	\$ (4,436)
Licenses and permits	106,700	66,700	71,699	4,999
State shared revenues	111,396	111,396	108,517	(2,879)
Contributions from local units	492,027	492,027	439,512	(52,515)
Grant revenue	11,000	11,000	8,449	(2,551)
Charges for services	54,900	54,900	78,944	24,044
Fines	3,800	3,800	8,982	5,182
Interest	35,000	62,000	64,221	2,221
Reimbursements	500	500	-	(500)
Other revenue	-	-	3,144	3,144
Total revenues	2,130,248	2,117,248	2,093,957	(23,291)
Expenditures				
Legislative	21,750	28,250	24,081	4,169
General government:				
Manager	92,165	125,565	117,626	7,939
Clerk / Treasurer	218,554	218,554	215,462	3,092
Assessor	44,700	55,700	55,718	(18)
Legal and accounting	73,000	99,000	81,359	17,641
Building and grounds	183,850	108,850	82,673	26,177
Contingencies	1,000	3,300	3,203	97
Insurance	22,000	22,000	20,242	1,758
Total general government	635,269	632,969	576,283	56,686
Public safety:				
Police	927,810	877,810	784,465	93,345
Planning and zoning	172,500	163,500	189,990	(26,490)
Total public safety	1,100,310	1,041,310	974,455	66,855
Public works	107,800	173,850	173,479	371

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND (CONTINUED)
YEAR ENDED JUNE 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Expenditures (continued)				
Recreation and cultural:				
Community relations	1,500	3,000	1,999	1,001
Parks and recreation	<u>674,500</u>	<u>134,500</u>	<u>113,219</u>	<u>21,281</u>
Total recreation and cultural	676,000	137,500	115,218	22,282
 Debt service:				
Principal	55,138	55,138	53,791	1,347
Interest	<u>25,571</u>	<u>25,571</u>	<u>23,651</u>	<u>1,920</u>
Total debt service	80,709	80,709	77,442	3,267
 Capital outlay:				
General government	-	12,000	11,500	500
Public safety	-	50,000	47,404	2,596
Parks and recreation	<u>5,000</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Total capital outlay	5,000	67,000	58,904	8,096
 Total expenditures	<u>2,626,838</u>	<u>2,161,588</u>	<u>1,999,862</u>	<u>161,726</u>
 Excess (deficiency) of revenues over (under) expenditures	(496,590)	(44,340)	94,095	138,435
 Other Financing Sources (Uses)				
Transfers in	665,600	25,600	-	(25,600)
Transfers out	<u>(3,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	662,100	25,600	-	(25,600)
 Net change in fund balance	165,510	(18,740)	94,095	112,835
Fund balance - July 1	<u>736,820</u>	<u>736,820</u>	<u>736,820</u>	<u>-</u>
Fund balance - June 30	<u>\$ 902,330</u>	<u>\$ 718,080</u>	<u>\$ 830,915</u>	<u>\$ 112,835</u>

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL -
GENERAL HIGHWAY FUND
YEAR ENDED JUNE 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Tax revenue	\$ 308,350	\$ 308,350	\$ 333,844	\$ 25,494
Interest	25,000	25,000	25,660	660
Other revenue	-	-	-	-
Total revenues	333,350	333,350	359,504	26,154
Expenditures				
Public works	20,000	500	459	41
Capital outlay	-	19,500	40,101	(20,601)
Total expenditures	20,000	20,000	40,560	(20,560)
Excess of revenues over expenditures	313,350	313,350	318,944	5,594
Other Financing Sources (Uses)				
Transfers in	400,000	-	-	-
Transfers out	(240,000)	(305,000)	(245,000)	60,000
Total other financing sources (uses)	160,000	(305,000)	(245,000)	60,000
Net change in fund balance	473,350	8,350	73,944	65,594
Fund balance - July 1	520,338	520,338	520,338	-
Fund balance - June 30	\$ 993,688	\$ 528,688	\$ 594,282	\$ 65,594

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL -
WATER AND SEWER REVOLVING FUND
YEAR ENDED JUNE 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Charges for services	\$ 46,000	\$ 46,000	\$ 75,062	\$ 29,062
Interest	5,700	5,700	12,547	6,847
Other revenue	-	-	534	534
Total revenues	51,700	51,700	88,143	36,443
Expenditures				
Public works	52,000	12,000	2,917	9,083
Net change in fund balance	(300)	39,700	85,226	45,526
Fund balance - July 1	56,831	56,831	56,831	-
Fund balance - June 30	\$ 56,531	\$ 96,531	\$ 142,057	\$ 45,526

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL -
LOCAL STREETS FUND
YEAR ENDED JUNE 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
State shared revenues	\$ 49,500	\$ 49,500	\$ 40,783	\$ (8,717)
Interest	2,500	2,500	583	(1,917)
Total revenues	52,000	52,000	41,366	(10,634)
Expenditures				
Public works	215,945	216,945	188,531	28,414
Capital outlay	-	130,000	124,655	5,345
Total expenditures	215,945	346,945	313,186	33,759
Excess of expenditures over revenues	(163,945)	(294,945)	(271,820)	23,125
Other Financing Sources				
Transfers in	170,000	260,000	245,000	(15,000)
Net change in fund balance	6,055	(34,945)	(26,820)	8,125
Fund balance - July 1	32,148	32,148	32,148	-
Fund balance - June 30	\$ 38,203	\$ (2,797)	\$ 5,328	\$ 8,125

CITY OF THE VILLAGE OF DOUGLAS
SCHEDULE OF FUNDING PROGRESS – EMPLOYEE RETIREMENT SYSTEM
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN

Actuarial Valuation Rate – December 31	2006	2005	2004
Actuarial value of assets	\$1,280,631	\$1,113,392	\$1,002,843
Actuarial accrued liability	1,663,832	1,407,308	1,366,745
Unfunded AAL	383,201	293,916	363,902
Funded ratio	77%	79%	73%
Covered payroll	738,339	682,016	604,063
UAAL as a percentage of covered payroll	52%	43%	60%

Additional Information

**CITY OF THE VILLAGE OF DOUGLAS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>Special Revenue Funds</u>			<u>Capital Project</u>	<u>Total Non-Major Funds</u>
	<u>Major Streets</u>	<u>Schultz Park</u>	<u>DDA</u>	<u>Center Street</u>	
Assets					
Cash and cash equivalents	\$ 899	\$ 36,145	\$ 37,992	\$ 56,203	\$ 131,239
Receivables, net	-	-	-	9,275	9,275
Receivables from other governments	14,137	-	-	-	14,137
Due from other funds	-	-	-	64,138	64,138
Total assets	<u>\$ 15,036</u>	<u>\$ 36,145</u>	<u>\$ 37,992</u>	<u>\$ 129,616</u>	<u>\$ 218,789</u>
Liabilities					
Accounts payable and accrued expenses	\$ 1,840	\$ -	\$ 754	\$ 5,302	\$ 7,896
Deferred revenue	-	-	-	9,275	9,275
Total liabilities	1,840	-	754	14,577	17,171
Fund balances					
Unreserved	13,196	36,145	37,238	115,039	201,618
Total liabilities and fund balances	<u>\$ 15,036</u>	<u>\$ 36,145</u>	<u>\$ 37,992</u>	<u>\$ 129,616</u>	<u>\$ 218,789</u>

CITY OF THE VILLAGE OF DOUGLAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds			Capital Project	Total Non-Major Funds
	Major Streets	Schultz Park	DDA	Center Street	
Revenues					
Tax revenue	\$ -	\$ -	\$ 6,314	\$ -	\$ 6,314
State shared revenues	86,641	-	-	-	86,641
Grant revenue	-	-	-	201,375	201,375
Charges for services	-	9,828	6,000	1,987	17,815
Interest	1,479	1,432	1,721	2,140	6,772
Other revenue	-	-	12,193	-	12,193
Total revenues	88,120	11,260	26,228	205,502	331,110
Expenditures					
Current operating:					
Public works	136,386	-	-	14,956	151,342
Recreation and cultural	-	2,388	13,003	-	15,391
Capital outlay	3,531	-	-	16,880	20,411
Total expenditures	139,917	2,388	13,003	31,836	187,144
Net change in fund balances	(51,797)	8,872	13,225	173,666	143,966
Fund balances - July 1	64,993	27,273	24,013	(58,627)	57,652
Fund balances - June 30	\$ 13,196	\$ 36,145	\$ 37,238	\$ 115,039	\$ 201,618

October 23, 2007

To the City Council and Manager
of the City of the Village of Douglas

In planning and performing our audit of the financial statements of the City of the Village of Douglas as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City of the Village of Douglas' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the following deficiencies to be material weaknesses:

1. **Cash Reconciliations** – The City did not reconcile bank accounts to the general ledger accurately and in a timely manner at various times during the year. We recommend that the City's bank accounts be reconciled to the general ledger on a monthly basis to ensure that all receipts, disbursements, transfers and other reconciling items are recorded on a timely basis, and to ensure the accuracy of the City's cash balances and financial position.
2. **Tax Fund Reconciliations/Payments to the City** – The City did not perform monthly reconciliations of the tax account general ledger balances to the BS&A tax program. The City should establish procedures to ensure that the proper amounts are paid to the city and other taxing units on a timely basis and that cash available in the tax collection fund is reconciled to the amounts owed to the various taxing units.
3. **Journal Entries not Properly Supported and Documented** – We noted that some journal entries and tax account adjustments did not have supporting documentation available at the time of the audit. We recommend that all journal entries and adjustments to any disbursements have proper support attached to the journal entry and document the reason for the adjustment.
4. **Investments** – The City's treasurer has the authority to invest the City's funds without significant oversight. The treasurer is also responsible for making all accounting entries relating to investment activity.
5. **Written Policies and Procedures** – Many of the City's policies and procedures, especially those related to the accounting function, have not been formally documented. We recommend developing a written accounting policies and procedures manual. The benefits of a written manual include clarification of responsibilities and segregation of duties; communication of appropriate systems of internal controls; and improved continuity at the time of personnel changes.
6. **Auditor Adjustments** – While the City made some adjustments to the balances in the governmental funds to the modified accrual basis of accounting and adjustments to the balances of the governmental activities to the full accrual basis of accounting, we proposed, and management approved, additional entries based on our audit.
7. **Preparation of Financial Statements in Accordance with Generally Accepted Accounting Principles (GAAP)** – The City has limited expertise in the preparation of year-end financial statements and relies on the auditors to draft the annual financial statements including related disclosures in accordance with generally accepted accounting principles.
8. **Segregation of Duties** – Due to the City's limited resources and personnel, they inherently have difficulty in establishing and maintaining an accounting system with strong internal accounting controls including segregation of duties.

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

FERRIS, BUSSCHER & ZWIERS, P.C.


Douglas W. Rotman, C.P.A.

DWR\kc

October 23, 2007

To the City Council and Manager
of the City of the Village of Douglas

In response to management's request, we have compiled a list of recommendations for Council and management to consider in addressing the material weaknesses identified in our letter dated October 23, 2007, as required by Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*.

Cash, Investments and Related Reconciliations

1. Close the Chemical Bank checking accounts if there is no reason to keep them open.
2. Make journal entries daily for non-tax related deposits in order to eliminate data entry errors from recopying the account distributions and to help facilitate the bank reconciliation process.
3. Open a separate checking account for the tax account/fund in order to better reconcile tax activity and to create a paper trail for the City's receipt and distribution of their own taxes.
4. Bank reconciliations should be performed monthly and within a week of receiving the bank statement. Reconciliations should be performed accurately (showing only items not clearing the bank) and adjusted for tax deposits in transit. Old outstanding checks should be reissued or turned into the State of Michigan. Any unreconciled differences should be investigated and corrected promptly.
5. If the Clerk is not able to make additional distributions prior to month end to create a proper cash journal entry out of BS&A, we recommend that the Treasurer prepare a journal entry manually to record the deposits prior to month end and reverse the same entry the beginning of the next month, when BS&A will deposit receipts into the general ledger. This will properly state cash at the end of each month and the bank reconciliation will not have reconciling tax receipt issues.
6. Interest receivable should be recorded as part of the month end and year end closing process along with other accruals.

Tax Fund Reconciliations/Payments to the City

1. As previously mentioned, a separate checking account would force the City to cut themselves checks for their portion of tax revenue, tax collection fees and interest, thus creating a paper trail that is similar to other cash disbursements. It would also force separate bank reconciliations for the tax account, which would address proper cutoff of deposits and checks.
2. We recommend monthly reconciliations of the tax account balances. If an analysis is performed monthly, it would bring to light any errors from BS&A links and mispostings made by staff during the disbursement process.

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3. We recommend that the Treasurer oversee and approve the work of the Clerk and Deputy Clerk surrounding the tax receipt and disbursement process in order to prevent and detect over or under payments to the City or to other Local Units. This may include reviewing the documentation of each disbursement and verifying that the accounts used are correct.
4. We recommend that the Treasurer reconcile the tax revenue in each of the City's own funds periodically and at year end to ensure proper posting.

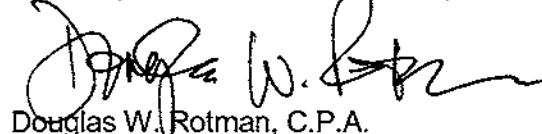
Internal Controls, Segregation of Duties and Financial Reporting

1. Levels of oversight can be established, even in a small office environment. The work of the Clerk and Deputy Clerk can be overseen by the Treasurer if a monthly reconciliation and review of the general ledger were performed. A monthly close may include the preparation of workpapers to support balance sheet accounts and key revenue and expense analysis. Another layer of oversight of the Treasurer's functions may include having the unopened bank statement and cancel checks (or images) received by an independent person (City Manager or Board Member) for review prior to reconciliation. The Board or Finance Committee can provide additional oversight into check signing, invoice approval, cash reconciliation accuracy and budget verses actual reporting. Creating sign offs of these will prove that controls are operating and preventing and detecting errors.
2. Clearly communicating what each person's job duties are and what the City's accounting policies and procedures are crucial to creating an internal control structure. The City should consider developing and writing key accounting processes, accounting policies, investing policies, required sign offs, and internal controls so that the employees can work within the framework and the Board can measure performance against the written policies and procedures.
3. Auditor adjustments for modified accrual and full accrual accounting will depend on the capability of the Treasurer. We will continue to assist the City in making the necessary adjustments at year end when necessary.
4. Preparation of financial statements in accordance with generally accepted accounting principles is a decision by Council to continue to contract the auditor's expertise annually.
5. As a general rule, all journal entries and manual adjustments to the general ledger should be properly supported and documented.

This report is intended solely for the information and use of the City Council and management. If you have any questions regarding the issues or the above recommendations and suggestions, we would be pleased to discuss them with you.

Sincerely,

FERRIS, BUSSCHER & ZWIERS, P.C.



Douglas W. Rotman, C.P.A.